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COMPACT OF FREE ASSOCIATION

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

JULY 29, 1985

Printed for the use of the Committee on Finance

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COMPACT OF FREE ASSOCIATION

MONDAY, JULY 29, 1985

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The committee met, pursuant to notice, at 9:09 a.m., in room SD-215, Dirksen Senate Office Building, the Honorable Robert Packwood (chairman) presiding.

Present: Senators Packwood, Danforth, and Heinz.

The CHAIRMAN. The hearing will come to order, please.

This is a bill involving Micronesia, which has been referred to this committee for just one day, and we are discharged of it at the end of the day after we make whatever decisions we want to make on it.

We have only one witness with us today, the Honorable Roger Mentz, the Deputy Assistant Secretary for Tax Policy for the Department of the Treasury.

And, Mr. Mentz, let me ask you for the record are you speaking for the administration in your presentation today?

Mr. MENTZ. Yes, I am, Mr. Chairman. My testimony has been cleared by OMB.

The CHAIRMAN. All right, thank you. Why don't you go right ahead.

STATEMENT OF HON. ROGER MENTZ, DEPUTY ASSISTANT SECRETARY FOR TAX POLICY, DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Mr. MENTZ. Thank you, Mr. Chairman, Senator Danforth. Good morning.

It's a pleasure to appear before you today to present the views of the Treasury Department on the tax provisions contained in the proposed Compact of Free Association with the Marshall Islands and the Federated States of Micronesia, generally known as the Freely Associated States.

First, let me say that we fully share the view of the vital importance of our relationship with the Freely Associated States, and the need to enact the compact in the form that will enhance the development of those areas and protect our national security interests.

As originally negotiated, however, the compact contains certain tax provisions that give use concern. In particular, the compact would create tax-haven status for the Freely Associated States by granting broad exemptions from U.S. tax for citizens of, or persons present in, the Freely Associated States.

In addition, the compact would grant certain investment incentives, including section 936, to the Freely Associated States as they were in effect on January 1, 1980. Any reduction in those incentives enacted by Congress subsequent to enactment of the compact would not be effective for 2 years, and would then be offset under the original compact by the grant of substantially equivalent benefits.

You can see, Mr. Chairman, that that would immediately create a problem because section 936 was modified very substantially in TEFRA, and, thus, you would have a conflict between 936 applying in Micronesia versus the rest of the possessions. The same is true for the availability to issue tax-exempt bonds, which was changed by Congress in 1984. That change would not have applied to Freely Associated States under this original compact.

We believe that it is possible to structure tax provisions for the compact that would both address these concerns and at the same time provide important development incentives. As you know, the House of Representatives has passed a version of the Compact containing modifications to its tax provisions. These assure that U.S. income, gift and estate tax cannot be improperly avoided by obtaining citizenship or being physically present in the Freely Associated States. In addition, an investment incentive is provided in the form of section 936 in its current form. Should the benefits of 936 be reduced in the future, the change would be deferred with respect to the Free Associated States for 1 year, and equivalent benefits would be provided to the Freely Associated States through negotiations to enactment of the compact would not be effective for 2 years, and would then be offset under the original compact by the grant of substantially equivalent benefits.

You can see, Mr. Chairman, that that would immediately create a problem because section 936 was modified very substantially in TEFRA, and, thus, you would have a conflict between 936 applying in Micronesia versus the rest of the possession. The same is true for the ability to issue tax-exempt bonds, which was changed by Congress in 1984. That change would not have applied to freely Associated States under this original compact.

We believe that it is possible to structure tax provisions for the compact that would both address these concerns and at the same time provide important development incentives. As you know, the House of Representatives has passed a version of the compact containing modifications to its tax provisions. These assure that U.S. income, gift and estate tax cannot be improperly avoided by obtaining citizenship or being physically present in the Freely Associated States. In addition, an investment incentives is provided in the form of section 936 in its current form. Should the benefits of 936 be reduced in the future, the change would be deferred with respect to the Freely Associated States for 1 year, and equivalent benefits would be provided to the Freely Associated States through negotiations or, failing that, through arbitration to make up for any reduction in incentives.

In either event, the grant of benefits would be subject to congressional approval. Further, the Freely Associated States would be required to enter into a very broad exchange of tax information

agreement with the United States. That's in order to preserve the 936 benefits.

Mr. Chairman, we believe that the provisions adopted by the House of Representatives provide an acceptable resolution of the difficult issues raised in this Compact of Freely Associated States.

I would like to note, however, that the one provision of the resolution, as adopted by the House Committee on Interior and Insular Affairs, that was deleted in the House would restrict the ability of Congress to modify section 936 as it applies to other possessions and Puerto Rico. Such a provision would be fundamentally inconsistent with the President's proposals on tax reform, and is, therefore, strongly objectionable to the administration.

In closing, Mr. Chairman, I would repeat that the Treasury fully supports the effort to enact compact legislation that will permit the achievement of its greatly important goals, and believes that the tax provisions can be developed to address the concerns we have raised.

I'd be pleased to answer any questions you may have.

[The prepared written statement of Mr. Mentz follows:]

For Release Upon Delivery
Expected at 10:00 a.m.
Monday, July 29, 1985

STATEMENT OF J. ROGER MENTZ
DEPUTY ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to present the views of the Treasury Department on the tax provisions contained in the proposed Compact of Free Association with the Marshall Islands and the Federated States of Micronesia.

Let me first state that we fully share the view of the vital importance of our relationship with the Freely Associated States, and the need to enact the Compact in such form that will enhance the development of those areas and protect our national security interests.

As originally negotiated, however, the Compact contains certain tax provisions that give us concern. In general, the Compact would create tax-haven status for the Freely Associated States by granting broad exemptions from U.S. tax for citizens of, or persons present in, the Freely Associated States. In addition, the Compact would grant certain investment incentives (including the benefits of section 936) to the Freely Associated States as those incentives were in force as of January 1, 1980. Any reductions in these incentives enacted by Congress subsequent to enactment of the Compact would not be effective for two years and would then be offset by the grant of substantially equivalent benefits. Thus, for example, the benefits of section 936 (without the 1982 TEFRA changes) and the ability to issue tax-exempt bonds free of the limitations enacted by Congress in 1984 would be granted to the Freely Associated States under the original Compact. These various tax provisions are of significant concern.

We believe that it is possible to structure tax provisions for the Compact that would both address these concerns and, at the same time, provide important development incentives. As you know, the House of Representatives has passed a version of the Compact containing modifications to its tax provisions. These provisions assure that U.S. income or gift and estate tax cannot be improperly avoided by obtaining citizenship or being physically present in the Freely Associated States. In addition, an investment incentive is provided in the form of making available the benefits of section 936 in its current form. Should the benefits of section 936 be reduced in the future, the change would be deferred with respect to the Freely Associated States for one year, and equivalent benefits would be provided to the Freely Associated States through negotiations or, failing that, through arbitration, to make up for any reduction in incentives. In either event, the grant of benefits would be subject to Congressional approval. Further, the Freely Associated States will be required to enter into a broad exchange of tax information agreement with the United States in order to preserve the benefits of section 936.

We believe that the provisions adopted by the House of Representatives provide an acceptable resolution of the difficult issues raised.

I would also note that one provision of the Resolution as adopted by the House Committee on Interior and Insular Affairs that was deleted in the House of Representatives would restrict the ability of Congress to modify section 936 as it applies to other possessions and Puerto Rico. Such a provision is fundamentally inconsistent with the President's proposals on tax reform and is therefore strongly objectionable.

In closing, I would repeat that the Treasury Department fully supports the effort to enact Compact legislation that will permit the achievement of its greatly important goals, and believes that tax provisions can be developed to address the concerns we have raised.

I would be pleased to answer any questions you may have.

The CHAIRMAN. I'm going to suggest—and I wonder if, Dave and John—John, you might want to sit up there because we are going to be asking some questions and moving very quickly into a mark-up

[Whereupon, at 9:14 a.m., the hearing was concluded.]

[By direction of the chairman, the following communications were made a part of the hearing record:]

STATEMENT OF

CONGRESSMAN BEN BLAZ

GUAM

TO THE SUBCOMMITTEE ON INTERNATIONAL TRADE

COMMITTEE ON FINANCE

UNITED STATES SENATE

JULY 15, 1985

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I SPEAK TODAY IN OPPOSITION TO THE INCLUSION OF GUAM AND THE OTHER INSULAR POSSESSIONS IN S. 680 AS "COUNTRIES". THIS BILL PLACES THE U.S. TERRITORIES IN THE SAME CATEGORY AS FOREIGN TERRITORIES AND FOREIGN COUNTRIES FOR THE PURPOSE OF IMPOSING STRICT IMPORT QUOTAS ON TEXTILES. THUS, GUAM IS SEEN BY THE AUTHORS OF THIS BILL TO HAVE MORE IN COMMON WITH INDIA OR TAIWAN THAN WITH THE REST OF THE AMERICAN REPUBLIC. WE ON GUAM ARE AMERICANS. WE ARE LOYAL ADHERENTS TO THE CAUSE OF DEMOCRACY AND FREE ENTERPRISE. WE HAVE DIED IN THEIR DEFENSE. YET, THIS BILL TELLS US OUR FAITH IS MISPLACED. WE ASK NO MORE OF OUR FEDERAL GOVERNMENT THAN TO BE TREATED AS OTHER AMERICANS AND AFFORDED THE OPPORTUNITY TO DEVELOP OUR PRIVATE ECONOMY. YET, THIS BILL REPRESENTS ONE MORE INSTANCE OF THE ECONOMIC EXCLUSION OF GUAM FROM THE REST OF THE AMERICAN FAMILY. SLOWLY BUT SURELY I FEAR THE CORDS WHICH BIND GUAM TO THE HEART OF AMERICA ARE BEING LOOSENED AND SEVERED.

THE IMMEDIATE EFFECT OF THIS BILL WILL BE TO SLAP SEVERE IMPORT QUOTAS ON GUAM AND THE OTHER TERRITORIES. THESE QUOTAS ESTABLISH CEILINGS WHICH ARE FAR BELOW THE NUMBER OF TEXTILE PRODUCTS CURRENTLY BEING PRODUCED AND SHIPPED FROM GUAM. UNDER S. 680, SIGALLO PAC, THE SOLE TEXTILE CONCERN ON GUAM, WOULD BE LIMITED TO THE YEARLY EXPORT OF ONLY 6,720 DOZEN SWEATERS. AT PRESENT, SIGALLO PAC SHIPS 140,000 DOZEN SWEATERS ANNUALLY. FACED WITH SUCH A RESTRICTIVE QUOTA, SIGALLO PAC WILL CLOSE ITS

DOORS AND LAY OFF ITS 400 EMPLOYEES. THE SECONDARY AND MORE DRASTIC EFFECT OF THIS BILL WILL BE TO SOUR POTENTIAL INVESTORS ON THE PROSPECTS OF FURTHER INVESTMENT IN GUAM. CAPITAL INVESTMENT IS THE SEED FROM WHICH ALL PRIVATE ENTERPRISE GROWS. GUAM CANNOT DEVELOP A PRIVATE INDUSTRY WITHOUT IT. THE ONLY ALTERNATIVE IS TO PAY FOR THE RISING MATERIAL NEEDS OF GUAM OUT OF THE FEDERAL TREASURY. IN AN ERA OF RISING FEDERAL DEBT, TAXPAYERS IN YOUR DISTRICT AS WELL AS OTHERS CAN ILL-AFFORD TO SHOULDER THIS HEAVY BURDEN.

THIS PATTERN SHOULD NOT BE ALLOWED TO DEVELOP. THE SENATE LONG AGO RECOGNIZED THE UNIQUE AND PECULIAR PROBLEMS OF THE TERRITORIES IN ATTEMPTING TO COMPETE WITH LOW-WAGE, UNREGULATED FOREIGN INDUSTRY. GENERAL HEADNOTE 3(A) TO THE TARIFF SCHEDULES OF THE UNITED STATES HAS BEEN RECOGNIZED AS AN EXPRESSION OF CONGRESSIONAL CONCERN FOR THE WELL-BEING OF PRIVATE ENTERPRISE IN THE TERRITORIES. S. 680 REVOKES THIS POLICY AND TREATS THE TERRITORIES AS IF THEY WERE FOREIGN COUNTRIES FOR TRADE PURPOSES. IN FACT, THIS BILL WILL SUBJECT GUAM AND THE OTHER TERRITORIES TO WORSE TREATMENT THAN IS ACCORDED CANADA, THE EUROPEAN ECONOMIC COMMUNITY AND THE COUNTRIES IN THE CARIBBEAN BASIN INITIATIVE. THE FLAG TERRITORIES WILL BE THRUST ONCE AGAIN INTO THE IMPOSSIBLE POSITION OF COMPETING WITH FOREIGN COUNTRIES FOR THE AMERICAN IMPORT MARKET WHILE BEING SUBJECT TO FEDERAL WAGE, SAFETY AND POLLUTION STANDARDS. THE CONGRESSIONAL PURPOSE AND INTENT EMBODIED IN HEADNOTE 3(A) WILL HAVE BEEN FRUSTRATED. PRIVATE INDUSTRY IN THE TERRITORIES WILL SUFFER.

THIS PROCESS IS ALREADY UNDERWAY. MOST RECENTLY, THE HOUSE VOTED ON JUNE 27, 1985 TO PROHIBIT AMERICAN CAR DEALERS ON GUAM FROM SELLING 1,200 CARS PER YEAR TO AMERICAN SERVICEMEN. GUAM'S AMERICAN PRIVATE CAR DEALERSHIPS, AMERICAN INSURANCE COMPANIES AND AMERICAN SHIPPING COMPANIES WILL SUFFER. JOBS, INCOME AND TAX REVENUE WILL BE LOST. JUST PRIOR TO THIS THE FEDERAL AVIATION ADMINISTRATION GROUNDED ONE OF THE PRIMARY AIRLINES SERVING OUR TERRITORY FOR FAILURE TO COMPLY WITH NOISE REGULATIONS. SOUTH PACIFIC ISLAND AIRWAYS SUBSEQUENTLY FILED FOR BANKRUPTCY. SINCE THEN, MAIL SERVICE HAS BEEN DELAYED FOR AS MUCH AS TWO WEEKS. NEEDLESS TO SAY, AIRLINE COMPETITION AND PASSENGER SERVICE HAVE DECLINED TO THE DETRIMENT OF OUR ECONOMY.

NOT SO LONG AGO A DEVELOPING WATCH INDUSTRY ON GUAM AND IN THE OTHER FLAG TERRITORIES WAS STIFLED IN ITS INFANCY BY ADMINISTRATIVELY IMPOSED IMPORT QUOTAS. OUR ONLY OIL REFINERY WAS FORCED TO CLOSE IN 1983 BECAUSE OF FEDERAL REGULATIONS WHICH RENDERED IT UNABLE TO COMPETE WITH CHEAPER FOREIGN REFINERIES.

NOW, THE FLEDGLING TEXTILE INDUSTRY ON GUAM, BUILT IN RELIANCE ON HEADNOTE 3(A), IS THREATENED NOT ONLY BY THIS BILL, BUT ALSO BY THE U.S. CUSTOMS SERVICES' NEW COUNTRY OF ORIGIN RULES. THESE RULES WILL SUBJECT PRODUCTS OF U.S. POSSESSIONS TO PROHIBITIVE IMPORT DUTIES IN CONTRAVENTION OF THE EXPRESS POLICY OF HEADNOTE 3(A). THE INEVITABLE RESULT WILL BE FURTHER DEPENDENCE ON FEDERAL SUBSIDIES TO SUPPORT GUAM'S ECONOMY AND INCREASING DISENCHANTMENT AMONG GUAMANIANS WITH WASHINGTON'S INSENSITIVE TRADE POLICY.

THERE IS ALREADY A SMALL BUT GROWING COMMUNITY OF YOUNG, EDUCATED GUAMANIANS WHO CHALLENGE THE NOTION THAT POLITICAL UNION WITH THE UNITED STATES IS DESIRABLE. THIS BILL WILL SUPPLY THAT VOCAL GROUP WITH FURTHER FUEL FOR THEIR FIRE.

IN THE NEAR FUTURE I WILL INTORDUCE LEGISLATION TO PROPOSE A NEW POLITICAL STATUS, THAT OF A COMMONWEALTH, FOR THE TERRITORY. A NEW POLITICAL ORDER WILL BE SOUGHT WITH THE UNITED STATES BASED ON THE PREMISE OF MUTUAL RESPECT AND EQUALITY. WE ARE LAYING THE FOUNDATION OF THAT RELATIONSHIP TODAY. UNFORTUNATELY, S. 680 CLEARLY INDICATES THAT THE UNITED STATES INTENDS TO TREAT GUAM IN THE FUTURE AS A FOREIGN COUNTRY.

THIS CHANGE IN THE COURSE OF FEDERAL-TERRITORIAL RELATIONS WILL HOLD ENORMOUS SIGNIFICANCE FOR THE STRATEGIC PRESENCE OF THE UNITED STATES IN THE PACIFIC REGION. S.680 IS NOT A PRUDENT FIRST STEP IN FURTHERING THE FUTURE POLITICAL RELATIONSHIP BETWEEN GUAM AND THE FEDERAL GOVERNMENT. I URGE YOU, THEREFORE, TO TREAT GUAM WITH THE RESPECT IT DESERVES AS A LOYAL AND STRATEGIC TERRITORY. GUAM AND THE OTHER FLAG TERRITORIES SHOULD BE REMOVED FROM THE DEFINITION OF A "COUNTRY" IN THIS BILL.

Office of the President
THE MARSHALL ISLANDS

29 July 1985

The Honorable
Senator Robert Packwood
Chairman of the Committee on Finance
United States Senate
Washington, D.C.

Dear Mr. Senator:

President Amata Kabua of the Marshall Islands understands that your Committee will be reviewing the trade and tax provisions of the Compact of Free Association today. In this connection, he has asked that I convey to you, and the distinguished members of your Committee, the position of our government in this regard.

For the people of the Marshall Islands, the Compact is not just an economic assistance package. The Compact, if approved, would create a political relationship of free association. In free association with the United States, the people of the Marshall Islands would be self-governing under their own constitution, yet the United States would have the authority and responsibility it requires for defense and security matters. This would include the continued use of the Kwajalein Missile Range past 30 September of this year. For these reasons, we believe that approval of the Compact is in the interest of both our countries, and the political stability of the Central Pacific Region.

The trade and tax provisions of the Compact are one of the very corner stones of the free association relationship. Without these incentives to attract United States individuals and businesses to the Marshall Islands, we will not get the expertise and the development needed to achieve greater economic self-reliance. Without economic development, self-government and stability will be jeopardized.

We understand that it is your right and constitutional duty to examine, and if necessary amend, all legislation which relates to tax and trade matters. However, we are compelled to say that the House amendments of the Compact trade and tax provisions effectively eliminate the benefits we struggled so hard to obtain over 15 years of negotiations. We need the benefits the trade and tax provisions will provide us. Without them we will find it very difficult to accept the Compact.

When you review the Compact we ask that you consider our views. If your Committee has concerns that must be addressed by amending the Compact resolution, we ask that you do so in a fashion that will preserve the relationship that we negotiated.

On behalf of President Kabua, I convey to you his regret that he was not able to personally write you this letter. The time constraints we face dictate that I transmit this message to you before a letter could arrive from the Marshall Islands.

Sincerely yours,

Carl B. Ingram
Adviser to the President

Commonwealth of the Northern Mariana Islands
Office of the Governor
1985 JUL 31
Saipan, Mariana Islands 96950
Cable Address:
Gov. NMI Saipan

July 29, 1985

Ms. Betty Scott-Boom
Senate Committee on Finance
SD-219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Ms. Scott-Boom:

I am writing to inform the Committee on Ways and Means that the Commonwealth of the Northern Marianas supports the view of our Washington Resident Representative's position on H.R. 1562.

Our Representative's statement was submitted to you in his letter dated July 20, 1985.

Our government strongly feels that the proposed provision defining our territory as a "foreign country" is inconsistent with our political status agreement with the United States (P.L. 94-241). The agreement was intended to extend the full protection of U.S. laws to our islands as well as to promote our economy toward self-sufficiency, among other very important declarations.

The Covenant proposal under H.R. 1562 will completely undermine our status agreement with the United States with respect to the United States commitment and obligation to develop our economy. The elimination of the Commonwealth's rights to import into the United States, products manufactured under Headnote 3(a) in our islands will mean loss of funds and local revenue that is vitally needed by our people. Such losses will only bring us more frequently to Washington D.C. to request U.S. financial assistance and only serves to perpetuate our dependence on the U.S. taxpayers in running our government and in providing proper services to our people.

In the end, this legislative action will prompt our people to seriously question the propriety of entering into a permanent political union with the United States. The overwhelming vote

to join the American political family only will translate into double standard on citizenship rights and unequal protection of U.S. laws which can be conveniently altered to deny our people opportunities enjoyed by all other Americans.

I would seriously suggest that the Committee review the Covenant (P.L. 94-241) provisions under Article 701 and others in order to fully understand the negative implication that H.R. 1562 will impose on our people and our government.

Thank you for the opportunity to share our views on this most important legislation.

Sincerely,

Pedro A. Tenorio
Lt. Governor

Enclosure

cc: Governor
U.S. Resident Representative

THE HONORABLE BOB PACKWOOD
CHAIRMAN
COMMITTEE ON FINANCE
UNITED STATES SENATE
WASHINGTON, DC 20510

DEAR MR. CHAIRMAN:

LAST THURSDAY, WHEN WE HEARD THAT THE U.S. HOUSE OF REPRESENTATIVES HAD ADOPTED HOUSE JOINT RESOLUTION 187 APPROVING THE COMPACT OF FREE ASSOCIATION, IT SHOULD HAVE BEEN A TIME OF ENTHUSIASM AND CELEBRATION IN THE FEDERATED STATES OF MICRONESIA. INDEED, WE WERE ELATED BY THE STRONG VOTE IN FAVOR OF THE FREE ASSOCIATION RELATIONSHIP OUR TWO GOVERNMENTS HAVE WORKED SO HARD TO FORMULATE OVER THE LAST TWENTY YEARS.

UNFORTUNATELY, WITH RESPECT TO MATTERS OF SPECIFIC INTEREST TO THE COMMITTEE ON FINANCE, MY GOVERNMENT IS EXTREMELY CONCERNED ABOUT THE AMENDMENTS EFFECTIVELY ELIMINATING THE TAX AND TARIFF INCENTIVE PROVISIONS OF THE COMPACT. I MUST MAKE IT CLEAR TO YOU AND THE OTHER MEMBERS OF THE COMMITTEE THAT THE FEDERATED STATES OF MICRONESIA STRENUOUSLY OPPOSES THESE AMENDMENTS.

FOR THE LAST 38 YEARS, THE UNITED STATES HAS HAD AN OBLIGATION TO PROMOTE ECONOMIC ADVANCEMENT AND SELF-SUFFICIENCY IN THE FEDERATED STATES OF MICRONESIA. I WILL NOT PRETEND TO JUDGE UNITED STATES ACCOMPLISHMENTS IN THIS REGARD, THE STATE OF OUR ECONOMY SPEAKS FOR ITSELF. WITH THE COMPACT, WE HAD HOPED TO REVERSE THIS SITUATION, AND WORK TOWARDS INCREASED ECONOMIC SELF-SUFFICIENCY IN COOPERATION WITH THE UNITED STATES GOVERNMENT AND WITH PARTICIPATION BY THE UNITED STATES BUSINESS SECTOR. THE AGREED TAX AND TARIFF INCENTIVES IN THE COMPACT, COMBINED WITH GRANTS FOR FURTHER INFRASTRUCTURE CONSTRUCTION AND DEVELOPMENT PROJECTS, ARE ESSENTIAL TO ACHIEVEMENT OF OUR MUTUAL GOALS.

THE MODIFICATIONS TO THE TAX AND TARIFF PROVISIONS OF THE COMPACT ARE SO FUNDAMENTAL THAT THEY WOULD RENDER THE COMPACT UNACCEPTABLE TO MY GOVERNMENT AND MY PEOPLE. SOME MEMBERS AND STAFF OF THE CONGRESS HAVE ASKED WHETHER A NEW PLEBISCITE WOULD BE REQUIRED BY THESE AMENDMENTS. THE SIMPLE ANSWER TO THIS QUESTION IS YES, BUT MY GOVERNMENT, IN GOOD CONSCIENCE AND GIVEN ITS RESPONSIBILITIES TO OUR PEOPLE, COULD NOT RECOMMEND APPROVAL OF A COMPACT WHICH DENIED THE FEDERATED STATES OF MICRONESIA ANY HOPE OF GENUINE ECONOMIC PROGRESS. A NEW PLEBISCITE WOULD BE SENSELESS AND WOULD ONLY SERVE TO SCAR WHAT HAS HERETOFORE BEEN A FRIENDLY AND PRODUCTIVE RELATIONSHIP, BY HAVING OUR PEOPLE REJECT FREE ASSOCIATION WITH THE UNITED STATES.

I ASK YOUR COMMITTEE, AS REPRESENTATIVES OF THE UNITED STATES GOVERNMENT, TO HONOR YOUR COMMITMENT TO MY PEOPLE, NOT JUST FOR THE SAKE OF OUR EMERGING NATION'S ECONOMIC DEVELOPMENT, BUT FOR THE FUTURE OF COOPERATION AND UNDERSTANDING BETWEEN OUR TWO PEOPLES AND PEACE AND STABILITY IN THIS REGION OF THE PACIFIC.

I REMAIN,

RESPECTFULLY YOURS,

TOSIWO NAKAYAMA
PRESIDENT
FEDERATED STATES OF MICRONESIA

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